NORTH CAROLINA
Department of the Secretary of State

To all whom these presents shall come, Greetings:

I, ELAINE F. MARSHALL, Secretary of State of the State of North Carolina, do hereby certify the following and hereto attached to be a true copy of

ARTICLES OF MERGER

OF

OUR TOWNS OF NORTH MECKLENBURG-IREDELL HABITAT FOR HUMANITY, INC.

INTO

HABITAT FOR HUMANITY OF CHARLOTTE, INC.

WHICH CHANGED ITS NAME TO

HABITAT FOR HUMANITY OF THE CHARLOTTE REGION, INC.

the original of which was filed in this office on the 17th day of February, 2020.

Scan to verify online.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at the City of Raleigh, this 17th day of February, 2020.

Elaine F. Marshall

Secretary of State

Certification# C202004801318-1 Reference# C202004801318-1
Verify this certificate online at http://www.sosnc.gov/verification

SOSID: 0063772
Date Filed: 2/17/2020 2:39:00 PM
Effective: 2/29/2020
Elaine F. Marshall
North Carolina Secretary of State
C2020 048 01318

State of North Carolina
Department of the Secretary of State

ARTICLES OF MERGER

Pursuant to North Carolina General Statutes Section 55A-11-04, the undersigned North Carolina nonprofit corporation does hereby submit the following Articles of Merger as the surviving corporation in a merger between itself and a North Carolina nonprofit corporation.

1. The name of the surviving corporation is Habitat for Humanity of Charlotte, Inc., a nonprofit corporation organized under the laws of the State of North Carolina.

2. The address of the surviving corporation is:

   Habitat for Humanity of Charlotte, Inc.
   3815 Latrobe Drive
   Charlotte, NC 28211 (Mecklenburg County)

3. The name of the merged corporation is Our Towns of North Mecklenburg—Iredell Habitat for Humanity, Inc., a nonprofit corporation organized under the laws of the State of North Carolina, and its mailing address is:

   PO Box 1088
   Davidson, NC 28036 (Mecklenburg County)

4. The texts of each amendment to the Articles of Incorporation of the domestic surviving corporation, as provided for within the Plan of Merger, are as follows:

   a. Article I of the Articles of Incorporation is amended to read as follows:

      "The name of the corporation is Habitat for Humanity of the Charlotte Region, Inc."

   b. Section (a) of Article III of the Articles of Incorporation is deleted in its entirety and shall be replaced with the following:

      (a) To encourage, promote and assist the development, building, renovation, rehabilitation and maintenance of housing for lowincome persons in the Counties of Mecklenburg and Iredell in North Carolina; and"

5. A Plan of Merger has been duly approved in the manner required by law by each of the business entities participating in the merger.

6. These Articles of Merger will be effective as of 11:59 p.m. Eastern Time on February 29, 2020.

[Signature page follows]

This the 17th day of February, 2020.

HABITAT FOR HUMANITY OF CHARLOTTE, INC.

By: Laura Belcher, President and CEO

Habitat for Humanity of Charlotte, Inc. and Subsidiaries

Consolidated Financial Statements and Other Financial Information

Years Ended June 30, 2019 and 2018

DIXON HUGHES GOODMAN LLP

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DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

Board of Directors of
Habitat for Humanity of Charlotte, Inc. and Subsidiaries

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Habitat for Humanity of Charlotte, Inc. and Subsidiaries (a North Carolina not-for-profit organization) (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, changes in net assets and cash flows for the years then ended, and the consolidated statement of functional expenses for the year ended June 30, 2019, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

DIXON HUGHES GOODMAN LLP

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Organization adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in fiscal year 2019, which resulted in the adjustment of certain amounts previously reported as of and for the year ended June 30, 2018. Our opinion is not modified with respect to that matter.

Other Matters - Other Financial Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2019, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Tampa, Florida
October 16, 2019

	2019	2018 (As Adjusted)
ASSETS		
Current assets:		
Cash	$ 5,288,986	$ 7,878,200
Restricted cash for Living Legacy fund	69,615	47,413
Restricted cash for escrow funds	569,818	694,414
Restricted cash for joint venture reserves	156,617	186,220
Funds held for others	46,567	54,485
Sales tax and other receivables	136,289	101,640
Inventory	219,961	245,704
Prepaid expenses	73,894	134,545
Current portion of non-interest-bearing mortgage loans receivable	2,699,029	2,707,561
Current portion of unconditional promises to give, net	362,109	943,849
Current portion of repair ministry receivables	61,568	61,690
Grants and other assistance receivable	242,885	230,336
Total current assets	9,927,338	13,286,057
Investments held at the Foundation for the Carolinas	51,377	52,148
Non-interest-bearing mortgage loans receivable, less discount	22,736,155	21,759,853
Unconditional promises to give, less discount	49,664	8,881
Repair ministry receivables, less discount and allowance	3,598	16,380
Investment in joint venture	2,999,654	2,999,654
Real estate owned	6,816,724	3,087,607
Houses under construction	3,721,792	3,296,754
Property and equipment, net	6,521,776	4,178,476
Total assets	$ 52,828,078	$ 48,685,810

	2019	2018 (As Adjusted)
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued liabilities	$ **895,218**	$ 914,873
Funds held for others	**46,567**	54,485
Escrow funds for taxes and insurance - mortgage escrow accounts	**569,818**	694,414
Deferred revenue	**182,788**	62,350
Current portion of non-interest-bearing notes payable, less discount	**521,083**	279,305
Current portion of long-term debt	**489,870**	613,743
Total current liabilities	**2,705,344**	2,619,170
Non-interest-bearing notes payable, less discount	**3,072,793**	3,100,439
Long-term debt, less current portion, net of unamortized debt issuance costs, less discount	**13,800,409**	10,255,831
Total liabilities	**19,578,546**	15,975,440
Net assets:		
Without donor restrictions	**30,816,997**	31,062,476
With donor restrictions	**2,432,535**	1,647,894
Total net assets	**33,249,532**	32,710,370
Total liabilities and net assets	$ **52,828,078**	$ 48,685,810

	2019	2018
Revenues and other support without donor restrictions:		
Contributions	$ **3,854,043**	$ 5,036,801
Donated property, materials and services	**1,546,886**	543,819
Total contributions	**5,400,929**	5,580,620
Home sale and repair income	**6,755,076**	4,805,675
Imputed interest income on non-interest-bearing mortgage loans receivable and repair ministry receivables	**1,737,125**	1,719,934
ReStore retail and coffee shop operations	**5,489,072**	5,646,306
Housing grants and other revenues	**1,675,506**	2,562,086
	21,057,708	20,314,621
Net assets released from restrictions	**652,559**	213,627
Revenues and other support without donor restrictions	**21,710,267**	20,528,248
Expenses:		
Program:		
Construction, supervision, and support	**7,711,561**	5,708,067
Cost of mortgage sales and securitization	**301,485**	180,969
ReStore retail and coffee shop operations	**4,385,975**	4,473,284
Family support	**1,302,543**	1,059,637
Repair ministry expenses	**2,549,339**	2,211,264
Interest expense, net	**1,014,085**	393,511
Support to Habitat International	**416,601**	441,857
Discount on current year below-market-interest mortgage loans, and repair ministry receivables	**1,968,439**	1,751,914
Advocacy expenses	**161,529**	120,399
	19,811,557	16,340,902
Management and general	**798,670**	815,898
Fundraising and public relations	**1,345,519**	1,104,122
Total expenses	**21,955,746**	18,260,922
Increase (decrease) in net assets without donor restrictions	$ **(245,479)**	$ 2,267,326

	2019	2018 (As Adjusted)
Net assets without donor restrictions:		
Increase (decrease) in net assets without donor restrictions	**$ (245,479)**	$ 2,267,326
Net assets with donor restrictions:		
Restricted contributions	**1,435,673**	418,899
Investment return, net	**1,527**	3,843
Net assets released from restrictions	**(652,559)**	(213,627)
Increase in net assets with donor restrictions	**784,641**	209,115
Increase in net assets	**539,162**	2,476,441
Net assets, beginning of year	**32,710,370**	30,233,929
Net assets, end of year	**$ 33,249,532**	$ 32,710,370

Habitat For Humanity of Charlotte, Inc. and Subsidiaries
Consolidated Statement of Functional Expenses
Year Ended June 30, 2019

	Construction and Homeownership	Retail	Fundraising	Management and General	Total
Advertising and communications	$ 53,725	$ 198,891	$ 109,026	$ 25,200	$ 386,842
Bank fees	8,109	144,592	13,129	13,570	179,400
Cost of homes/goods sold	7,821,298	547,543	-	-	8,368,841
Depreciation and amortization	67,830	128,909	14,039	22,360	233,138
Facilities	31,542	793,175	3,871	14,360	842,948
Insurance	83,904	32,240	-	28,364	144,508
Interest expense	1,014,085	-	-	-	1,014,085
Miscellaneous	58,372	13,228	-	12,086	83,686
Mortgage discounts	1,968,439	-	-	-	1,968,439
Office operations	31,278	30,038	94,029	18,820	174,165
Professional fees/contract labor	451,943	93,766	10,900	157,066	713,675
Program expenses	168,754	-	-	-	168,754
Salaries and benefits	2,906,909	2,214,963	790,730	417,475	6,330,077
Special events	28,878	2,036	236,324	4,743	271,981
Technology	101,541	75,139	35,227	46,192	258,099
Habitat International Tithe & Support	416,601	-	-	-	416,601
Tools	53,756	940	-	-	54,696
Training, travel and dues	74,491	9,211	29,699	19,013	132,414
Vehicles	64,555	88,601	2,696	1,046	156,898
Volunteer and staff appreciation	19,572	12,703	5,849	18,375	56,499
	$ 15,425,582	$ 4,385,975	$ 1,345,519	$ 798,670	$ 21,955,746

See accompanying notes.

Habitat for Humanity of Charlotte, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Increase in net assets	**$ 539,162**	$ 2,476,441
Adjustments to reconcile increase in net assets to net cash used by operating activities:		
Imputed interest income on non-interest-bearing mortgage loans and repair ministry receivables	**(1,737,125)**	(1,719,934)
Imputed interest expense on non-interest-bearing notes payable	**801,836**	234,750
Discount on current year non-interest-bearing mortgage loans, mortgages held for sale, and repair ministry receivables	**1,968,439**	1,751,914
Discount on current year below-market-interest notes payable	**(228,682)**	(1,030,709)
Provision for uncollectible repair ministry receivables	**8,330**	5,410
Depreciation	**233,138**	192,130
Amortization of debt issuance costs	**7,947**	7,285
Gain on sale of property and equipment	**(4,842)**	(1,351)
Net changes in operating assets and liabilities:		
Mortgage loans receivable	**(1,199,644)**	(2,053,460)
Mortgages held for sale	**-**	1,036,036
Unconditional promises to give	**540,957**	(914,657)
Repair ministry receivables	**5,134**	36,946
Grant and other assistance receivable	**(12,549)**	(71,864)
Other receivables, prepaid expenses and other assets	**26,002**	180,184
Inventory	**25,743**	5,455
Houses under construction	**(425,038)**	(596,349)
Real estate owned	**(3,729,117)**	(414,447)
Accounts payable and accrued liabilities	**(19,655)**	57,488
Deferred revenue	**120,438**	(9,589)
Net cash used by operating activities	**(3,079,526)**	(828,321)
Cash flows from investing activities:		
Acquisition of and improvements to property and equipment	**(2,576,438)**	(291,032)
Proceeds from sale of property and equipment	**4,842**	1,351
Net change in investments held at Foundation for the Carolinas	**771**	(1,405)
Investment in joint venture	**-**	(2,999,654)
Net cash used by investing activities	**(2,570,825)**	(3,290,740)

	2019	2018
Cash flows from financing activities:		
Payments on long-term debt and non-interest-bearing notes payable	**$ (994,510)**	$ (857,580)
Proceeds from issuance of long-term debt and non-interest-bearing notes payable	**4,053,900**	8,495,476
Payment of debt issuance costs	**(5,654)**	(238,405)
Net cash provided by financing activities	**3,053,736**	7,399,491
Net increase (decrease) in cash	**(2,596,615)**	3,280,430
Cash, at beginning of year	**8,111,833**	4,831,403
Cash, at end of year	**$ 5,515,218**	$ 8,111,833
Cash	**$ 5,288,986**	$ 7,878,200
Restricted cash for Living Legacy fund	**69,615**	47,413
Restricted cash for joint venture reserves	**156,617**	186,220
	$ 5,515,218	$ 8,111,833
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	**$ 204,302**	$ 151,476

Notes to Consolidated Financial Statements

1. Description of Organization and Summary of Significant Accounting Policies

Habitat for Humanity of Charlotte, Inc. (‘‘Habitat” or the “Organization”) was incorporated on February 21, 1983, as an interdenominational not-for-profit organization whose purpose is to encourage, promote and assist in the building, redevelopment and repair of low-income housing in Charlotte, North Carolina. Habitat’s program sells housing to low-income persons at approximate cost utilizing non-interest-bearing mortgage loans. Habitat’s repair ministry provides affordable repair services to homeowners utilizing non-interest-bearing loans. Habitat finances its operations through continuing contributions, mortgage and note payment receipts, retail net income, low interest loans, and local, state and federal grants. In 2015, Habitat formed three wholly owned subsidiaries, Habitat Charlotte Homes, LLC, Habitat Charlotte Properties, LLC, and HFHC Holdings, LLC for purposes of purchasing land and building the houses. In 2016, Habitat formed another wholly owned subsidiary, HFHC Funding, LLC, for the purposes of holding mortgages securitizing debt with financial institutions.

Habitat operates four Habitat for Humanity ReStores (the “ReStores”), retail operations, where home furnishings, appliances, and other miscellaneous items are donated and then sold to the community at a greatly reduced price. Revenue is recognized by Habitat at the time the goods are sold. Due to the nature of the donated items, the value of the inventory is not recognized until sold. As part of operations at one of the ReStores, a coffee shop (“Julia’s Coffee”) is operated by employees and volunteers of the Organization. Both the ReStores and Julia’s Coffee are operated with the sole purpose of generating funds to assist in the Organization’s main purpose of building houses.

Basis of consolidation

The consolidated financial statements include the accounts of the Organization, Habitat Charlotte Homes, LLC, Habitat Charlotte Properties, LLC, HFHC Holdings, LLC, and HFHC Funding, LLC. All intercompany balances and transactions have been eliminated upon consolidation.

Basis of accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") and accordingly reflect all significant receivables, prepaid expenses, payables, and other liabilities.

Classification of net assets

Net assets of the Organization are classified as net assets without donor restrictions or net assets with donor restrictions.

> ***Net assets without donor restrictions*** consist of net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the Board of Directors.
>
> ***Net assets with donor restrictions*** consist of net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statements of activities.

GAAP provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutions Funds Act of 2006 ("UPMIFA"). UPMIFA is a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation. The state of North Carolina enacted a version of UPMIFA on March 16, 2009.

Contributions and support

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. The Organization recognizes as unrestricted revenue any donor-restricted contributions whose restrictions are met in the same reporting period as received.

Contributed services

A substantial number of volunteers have made significant contributions of their time to Habitat, principally in the areas of house construction, retail, administration and fundraising. The value of non-professional contributed time is not reflected in the accompanying consolidated financial statements. However, Habitat values donated professional services based on the market value of the service being provided. The market value of contributed professional services for the years ended June 30, 2019 and 2018 was approximately $63,000 and $99,000, respectively.

Houses under construction and real estate owned

Real estate, including pre-acquisition, acquisition, and development costs, building materials, and labor are recorded at cost when assets are acquired, or services are provided, as applicable, or at estimated fair market value when donated. Foreclosed homes purchased by the Organization are recorded at cost when the homes are acquired. A portion of overhead expenses is allocated to the cost of houses. No interest is capitalized as a cost of houses.

Reclaimed houses are recorded as a component of real estate owned at the outstanding mortgage balance at the date of reclamation if foreclosed or at the fair market value if repurchased. During the years ended June 30, 2019 and 2018, Habitat reclaimed twenty and two houses, respectively, with aggregate recorded values of approximately $2,454,000 and $276,000 respectively.

One requirement of homeownership is to have demonstrated one year of independent living prior to closing. As some potential homebuyers have not had previous independent living experience, they are able to satisfy this requirement by renting the home. The Organization has recognized rental income of approximately $39,000 and $28,000 in the years ended June 30, 2019 and 2018, respectively.

Inventory

Inventory consists of building materials used during the home building process and is stated at the lower of cost (determined by the first-in, first-out method) or market. Also included in inventory are the supplies for the coffee shop, Julia's Coffee, as well as products purchased by the Organization for future sales at the ReStore locations.

Property and equipment

Property and equipment is carried at cost or, if donated, at the approximate fair value at the date of donation. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long such long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Depreciation of property and equipment is computed over useful lives using the straight-line method. Maintenance, repair costs and minor replacements are charged to expense as incurred.

The Organization primarily uses the straight-line method of depreciation over the estimated useful lives of the assets, as follows:

Land improvements	4 to 15 years
Buildings and improvements	10 to 40 years
Machinery and equipment	3 to 10 years

Income taxes

Habitat is exempt from federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code; accordingly, the accompanying consolidated financial statements do not reflect a provision or liability for federal and state income taxes. The Organization has determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2019 and 2018.

Cash

The Company considers deposits on account and investments with maturity dates less than three months at the time of purchase to be cash. As of June 30, 2019 and 2018 there were no investments included in the cash balance. At various times throughout the year, the Company has deposits in excess of amounts covered by federal depository insurance. Cash accounts at a financial institution are insured by the Federal Deposit Insurance Corporation up to $250,000. The uninsured portion of these accounts as of June 30, 2019 and 2018 totaled $5,454,516 and $8,382,024, respectively.

Restricted cash

Restricted cash consists of amounts held in deposit accounts that have been restricted by donors for investment in the Living Legacy Fund, for amounts held on behalf of mortgagors for payment of taxes and insurance, and for amounts reserved for compliance and servicing fees related to a joint venture.

Unconditional promises to give

Unconditional promises to give are recognized as revenues in the period received and as increases of assets or decreases of liabilities or expenses depending on the form of benefits received. Promises to give are recorded at their present value less an allowance for uncollectible promises to give. Pledges receivable are due at various dates through 2024. The gross long-term pledges receivable are discounted at a rate commensurate with the risks involved. This rate is 4.78% for the years ended June 30, 2019 and 2018. For the years ended June 30, 2019 and 2018, an allowance for uncollectible promises to give was not deemed necessary. The allowance for uncollectible promises to give is based upon a review of outstanding pledge receivables and historical collection information.

At June 30, 2019, the Organization had three contributors that accounted for approximately 55% of the outstanding unconditional promises to give. At June 30, 2018, the Organization had one contributor that accounted for approximately 97% of the outstanding unconditional promises to give.

Repair ministry receivables

Repair ministry receivables are recognized as revenues in the period the receivable is established and as increases of assets or decreases of liabilities or expenses depending on the form of benefits received. Repair ministry receivables are recorded at their present value less an allowance for uncollectible repair ministry receivables. Repair ministry receivables are due at various dates through 2024. The gross long-term repair ministry receivables are discounted at a rate commensurate with the risks involved. This rate is 7.66% and 7.55% for the years ended June 30, 2019 and 2018, respectively. For the years ended June 30, 2019 and 2018, the Organization had an allowance for repair ministry receivables of approximately $121,000 and $113,000, respectively. The allowance for repair ministry receivables is based upon a review of outstanding repair ministry receivables and historical collection information.

Mortgage loans receivable

The Organization records and accounts for mortgage loans receivable based on the present value of the loan at the time of closing. For purposes of calculating loan present values, interest rates are determined based on the market rates for a similar type of loan on the date of closing and range from 5.6% to 10% for all loans outstanding. This method of accounting properly reflects the value of the mortgage loans receivable in the consolidated financial statements and recognizes interest income over the life of the loans. An expense is recorded upon the sale of houses for the difference between the face value of the mortgage loans receivable and the present value of the loans. The Organization has not established an allowance for doubtful accounts as it can reclaim houses through foreclosure in the event that a loan is deemed to be uncollectible, and management believes any reclaimed house can be resold at or above the amount of unpaid, discounted loan principal plus costs to sell the home. Mortgage loans receivable are generally considered delinquent when payment is thirty days past due; however, delinquency status may be mitigated by other qualitative factors.

Grants and other assistance receivable

The Organization is a beneficiary of grants from the U.S. Department of Housing and Urban Development ("HUD"). The Organization recognizes grant revenue as eligible expenditures are made. A portion of grants receivable represents that portion of grants revenue recognized, but not yet collected.

Investment in joint venture

The Organization's investment in the New Markets Tax Credit joint venture is accounted for under the cost method, as the Organization is not able to influence the operating and financial policies of the entity in which it invests (see Note 14). Accordingly, the investment is recorded at transaction cost, and distributions received from the investment are reported as revenue on the consolidated statement of activities.

Functional expenses

The costs of providing program and supporting services have been summarized on a functional basis in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated between the program and supporting services benefited. Directly identifiable expenses are charged to the appropriate programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of estimates made by management.

Estimates

The preparation of the consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent accounting pronouncement

During fiscal year 2019, the Organization adopted ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The Update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity of available resources, and the lack of consistency in the type of information provided about expenses and investment return. The fiscal year 2018 financial statements have been adjusted to reflect retrospective application of the new accounting guidance, except for the disclosures around liquidity and availability of resources and analysis of expenses by functional and natural categories.

The net asset reclassifications resulting from the adoption of ASU No. 2016-14 as of June 30, 2018 are as follows:

Net Assets	**Without Donor Restrictions**	**With Donor Restrictions**	**Total Net Assets**
As previously presented:			
Unrestricted	$ 31,062,476	$ -	$ 31,062,476
Temporarily restricted	-	193,391	193,391
Permanently restricted	-	1,454,503	1,454,503
Net assets, as adjusted	$ 31,062,476	$ 1,647,894	$ 32,710,370

Reclassifications

Certain reclassifications have been made to the 2018 financial statement presentation to correspond to the current year's format. Total net assets and the change in net assets are unchanged due to these reclassifications.

Subsequent events

The Organization evaluated the effect subsequent events would have on the consolidated financial statements through October 16, 2019, which is the date the consolidated financial statements were available to be issued.

2. Liquidity and Availability

As part of its liquidity management, the Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The following schedule explains the Organization's financial assets to meet cash needs for general expenditures within one year. The financial assets were derived from the total assets on the statements of financial position by excluding the assets that are unavailable for general expenditures in the next 12 months.

Financial assets at year-end:	
Cash	$ 5,288,986
Current portion of mortgages receivable, net	2,760,597
Current portion of unconditional promises to give, net	362,109
Other current receivables	379,174
Total financial assets	8,790,866
Less amounts not available to be used within one year:	
Current portion of mortgages receivable, net included in net assets with donor restrictions	(63,252)
Financial assets available to meet general expenditures over the next twelve months	$ 8,727,614

In addition, the Organization has a $600,000 line of credit available to be drawn on through March 31, 2020 (see Note 10).

3. Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2019 and 2018 are available for the following purposes:

	2019	2018
Purpose or time restricted:		
Unconditional promises to give for future construction	**$ 301,215**	$ 9,370
Adopt a Home	**206,000**	125,000
Reemprise Grant for Data Project	**-**	32,550
Critical Home Repair	**182,897**	-
URP Grant Funds	**-**	2,516
Knight Foundation grant	**15,655**	15,655
Hurricane Relief	**7,535**	-
Contributions for International Partners	**23,051**	8,300
Miscellaneous	**60,000**	-
	$ 796,353	$ 193,391
Permanently restricted:		
Endowment held at The Foundation for the Carolinas	**$ 51,377**	$ 52,148
Living Legacy	**1,584,805**	1,402,355
	$ 1,636,182	$ 1,454,503

4. Housing Activities

During the year ended June 30, 2019, Habitat started 43 new houses, and received no houses through donation. During the year ended June 30, 2018, Habitat started 52 new houses, and received one house through donations. Completed houses were either sold at cost or held in inventory at cost, as real estate owned, pending sale.

At June 30, 2019 and 2018, respectively, Habitat had 32 and 50 houses under construction on land owned by Habitat. At June 30, 2019 and 2018, there were 2 and 4 vacant foreclosed houses held in inventory with a book value of approximately $148,000 and $342,000, respectively. Sales of houses were approximately $6,654,000 and $4,711,000 during the years ended June 30, 2019 and 2018, respectively.

As of June 30, 2019, scheduled annual mortgage receipts are approximately:

2020	$ 2,699,029
2021	2,541,811
2022	2,463,531
2023	2,379,172
2024	2,289,667
Thereafter	28,694,385
	41,067,595
Less discount	(15,632,411)
	$ 25,435,184

Effective March 23, 2018 the Organization entered into a Loan Origination Agreement with Charlotte Metro Federal Credit Union. In accordance with the agreement, Charlotte Metro Federal Credit Union ("CMFCU") committed to originating mortgage loans for homes sold by the Organization to qualified low-income individuals and families, in the aggregate amount of $3,000,000 plus or minus 5%, at a rate of $1,000,000 per year beginning on March 1, 2018. The Organization is responsible for servicing the loans. The Organization, if requested by CMFCU, must either purchase or provide a substitute mortgage loan, for any mortgage loans delinquent more than 60 days under the agreement. As of June 30, 2019, 6 mortgage loans have been originated under the agreement with CMFCU.

Effective September 28, 2018 the Organization entered into a Loan Origination Agreement with First Bank. In accordance with the agreement, First Bank committed to originating mortgage loans for homes sold by the Organization to qualified low-income individuals and families, in the aggregate amount of $3,000,000 plus or minus 5%, at a rate of $1,000,000 per year beginning on January 1, 2019. The Organization is responsible for servicing the loans. The Organization, if requested by First Bank, must either purchase or provide a substitute mortgage loan, for any mortgage loans delinquent more than 60 days under the agreement. As of June 30, 2019 no mortgage loans have been originated under the agreement with First Bank.

Effective June 25, 2019 the Organization entered into a Loan Origination Agreement with South State Bank. In accordance with the agreement, South State Bank committed to originating mortgage loans for homes sold by the Organization to qualified low-income individuals and families, in the aggregate amount of $4,500,000 plus or minus 5%, at a rate of $1,500,000 per year beginning on January 1, 2020. The Organization is responsible for servicing the loans. The Organization, if requested by South State Bank, must either purchase or provide a substitute mortgage loan, for any mortgage loans delinquent more than 60 days under the agreement. As of June 30, 2019 no mortgage loans have been originated under the agreement with South State Bank.

5. Leasing Activities

The Organization purchased eight condos during the year as a part of a plan for future development. All eight condos were being rented at the time of the purchase. As of June 30, 2019, four condos are under yearly lease contracts while four condos are currently leased on a month-to-month basis. As the remaining leases expire, the agreements will not be renewed but the leasing will continue on a month-to-month basis. The condos are recorded as real estate owned in the amount of $440,000 on the consolidated statement of financial position, as improvements are being made to the condos, which will eventually be sold to homeowners. Minimum future rentals on noncancelable operating leases with original terms of one year or longer (excluding contingent rentals) total $15,545 at June 30, 2019, all of which is receivable during the year ending June 30, 2020.

6. Unconditional Promises to Give

As of June 30, 2019, unconditional promises to give are expected to be collected as follows:

2020	$ 362,109
2021	28,354
2022	12,004
2023	12,004
2024	1,488
	415,959
Less discount	(4,186)
Total	$ 411,773

7. Repair Ministry Receivables

As of June 30, 2019, repair ministry receivables are expected to be collected as follows:

2020	$ 74,187
2021	43,266
2022	33,385
2023	26,765
2024	17,920
	195,523
Less discount	(9,026)
Less allowance for uncollectible repair ministry receivables	(121,331)
Total	$ 65,166

8. Property and Equipment

A summary of property and equipment at June 30, 2019 and 2018 is as follows:

	2019	2018
Land	**$ 2,773,626**	$ 2,329,034
Office building renovation in process	**1,751,785**	-
Automobiles	**359,291**	287,483
Tools	**100,078**	92,505
Equipment	**130,429**	130,429
Computer equipment	**423,054**	369,655
Leasehold improvements	**336,776**	308,611
Real property	**2,093,481**	1,892,516
	7,968,520	5,410,233
Less accumulated depreciation	**(1,446,744)**	(1,231,757)
Property and equipment, net	**$ 6,521,776**	$ 4,178,476

9. Notes Payable and Long-Term Debt

Notes payable and long-term debt at June 30, 2019 and 2018 consist of the following:

	2019	2018
North Carolina Housing Financing Agency ("NCHFA"), non-interest-bearing notes, payable in monthly installments ranging from $69 to $222, maturing through January 2047	**$ 4,422,804**	$ 4,136,856
Self-Help Homeownership Opportunity Program ("SHOP"), non-interest-bearing notes, payable in monthly installments ranging from $73 to $1,586, maturing through June 2023	**242,330**	256,454

	2019	2018
Mortgage payable to a bank in monthly installments of \$17,599, including interest at 3.00%, secured by land and building of the Wendover ReStore, originally maturing through October 2019, prepaid in full in November 2018	**\$ -**	\$ 275,560
Bank of North Carolina loan, payable in monthly installments of \$9,264, including interest at 2.00%, secured by mortgages receivable on homes, maturing through August 2045	**1,588,791**	1,663,267
First Bank loan, payable in monthly installments of \$2,952, including interest at 2.50%, secured by mortgages receivable on homes, maturing through September 2044	**448,778**	472,658
Bank of America Community Development loan, payable in quarterly installments of \$41,667, including interest at 3.00%, unsecured, maturing through September 2028	**1,541,665**	1,708,333
First Bank loan, payable in monthly installments of \$2,664, including interest at 2.50%, secured by mortgages receivable on homes, maturing through August 2047	**568,489**	586,007
People's Bank loan, payable in monthly installments of \$14,679, including interest at 2.00%, secured by mortgages receivable on homes, maturing through June 2046	**2,464,952**	2,590,437
Loan payable to HFHI HMTC Sub-CDE II, LLC, interest only payments due semi-annually beginning in October 2017 and principal and interest payments beginning in October 2024, interest at 0.68%, maturing through July 2047 (see Note 14)	**4,435,278**	4,435,278
South State Bank loan in the maximum amount of \$2,100,000, secured by land and building of the Wendover ReStore and 3816 Latrobe Drive; interest only payments for 36 consecutive months beginning December 1, 2018 at a fixed interest rate of 4.00%; beginning January 1, 2022, the loan will be payable in equal monthly payments of principal and interest in the amount required to repay the loan in full amortized over a seven year term, maturing ten years following the closing date on November 1, 2028	**1,498,988**	-
HomeTrust Bank loan, payable in monthly installments of \$9,625, including interest at 2.00%, secured by mortgages receivable on homes, maturing through August 2046	**1,972,165**	-
	19,184,240	16,124,850
Less discount	**(1,071,258)**	(1,644,412)
Less unamortized debt issuance costs	**(228,827)**	(231,120)
	17,884,155	14,249,318
Less current portion	**(1,010,953)**	(893,048)
	\$ 16,873,202	\$ 13,356,270

Amortization of the discount is reported in the Statement of Activities as interest expense. Total interest cost incurred was \$1,014,085 and \$393,511, respectively, for the years ended June 30, 2019 and 2018, net of amounts capitalized of \$40,306 and \$0, respectively.

Interest rates used to discount the notes were determined based on the market rates for similar types of notes on the origination dates. Management determined the following interest rates to be reasonable:

	2019	2018
NCHFA, SHOP Notes	**2.74%, 2.85%**	2.74%, 2.85%

Terms of two of the mortgages payable, which are secured by the land and building of the Wendover ReStore and 3816 Latrobe Drive, require the Organization to maintain a ratio of funded debt to unrestricted net assets (net assets without donor restrictions) not to exceed 1.0. In addition, the Organization is subject to certain financial-related covenants related to the Bank of America Community Development loan. At June 30, 2019, the Organization is in compliance with these requirements.

Scheduled maturities for debt outstanding at June 30, 2019, for each of the next five years are as follows:

2020	$ 1,010,953
2021	762,291
2022	752,973
2023	745,591
2024	727,336
Thereafter	15,185,096
	$ 19,184,240

10. Line of Credit

The Organization has a $600,000 line of credit from Bank of America N.A. The line of credit bears interest at the British Bankers' Association LIBOR 30-day rate (approximately 2.40% at June 30, 2019) plus 2.2%. The line of credit expires on March 31, 2020. At June 30, 2019 and 2018, no amounts had been drawn on this line of credit.

11. Operating Leases

The Organization leases the space for a ReStore through December 31, 2021, under an operating lease with payments of $10,000 per month plus taxes and insurance with a 2% increase each year. The Organization leases the space for a second ReStore through December 31, 2023, under an operating lease with monthly payments of $8,337 plus taxes and insurance with a 3% increase each year. The Organization leases the space for a third ReStore through January 2025, under an operating lease with monthly payments of $13,298 plus taxes and insurance for years 1 through 5, and monthly payments of $14,628 plus taxes and insurance for years 6 and 7. As of June 30, 2019 and 2018, the deferred rent liability related to these leases amounted to $105,980 and $125,070, respectively. Other equipment is leased under various operating leases through October 2024. Rent expense was approximately $541,000 and $519,000 for the years ended June 30, 2019 and 2018, respectively.

Future minimum lease payments are as follows:

2020	$ 582,044
2021	577,790
2022	481,397
2023	310,487
2024	220,650
Thereafter	91,026
	$ 2,263,394

12. Endowment Fund

According to the governing agreement, the endowment funds held by Foundation for the Carolinas (the "FFTC") are the property of FFTC. However, as Habitat may collect its donor advised account balances on request and is considered to be the beneficiary of the endowment funds, these amounts are shown as investments on the accompanying statements of financial position. The funds held by FFTC include mutual funds, hedge funds and alternative investments. Investment gains and losses flow through net assets with donor restrictions.

The Board of Directors of the FFTC has absolute authority and discretion as to the investment and reinvestment of the assets of the fund. The Organization utilizes earnings from the fund to assist with operations. The entirety of the endowment funds are permanently restricted and held by the FFTC.

Changes in endowment net assets for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Endowment net assets, beginning of year	**$ 52,148**	$ 50,743
Investment return:		
Realized gains	**2,027**	4,343
Total investment return	**2,027**	4,343
Fees	**(500)**	(500)
Grants approved	**(2,298)**	(2,438)
Net increase (decrease)	**(771)**	1,405
Endowment net assets, end of year	**$ 51,377**	$ 52,148

13. Fair Value Measurements

Fair value as defined under GAAP is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Organization utilizes market data or assumptions that market participants would use in pricing the asset or liability. GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The Organization has investments in an endowment fund which are measured at fair value on a recurring basis. The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

The Organization recognizes transfers between levels in the fair value hierarchy at the end of the reporting period. For the year ended June 30, 2019, there were no transfers between fair value levels. There were no changes in the valuation methodologies used in the fair value hierarchy for the years ended June 30, 2019 and 2018, respectively.

Endowment fund

Fair values for the endowment fund are based on the values of the underlying investments held by the fund at any given time. The underlying investments within the fund are made up of items including mutual funds, marketable securities, hedge funds, common collective trusts, and alternative investments. The investments in the endowment fund fall into the Level 3 category based on the lowest level of any input in the endowment investments that is significant to the fair value measurements. This investment account is held at the Foundation for the Carolinas on behalf of the Organization. Prices or valuations require using significant unobservable inputs in determining fair value. The inputs into the determination of fair value require significant judgment or estimation by the investment manager. The investment manager uses either the market approach, which generally consists of using comparable market transactions, or the income approach which generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors. The inputs used by the investment manager in estimating the value of Level 3 investments include the Net Asset Value (“NAV”) and capital account values provided by the managers for investment fund positions, original transaction price, recent transaction in the same or similar instruments for private equity positions, original transaction price for the common stock position and a single broker quote for the corporate bond position.

The following table sets forth by level within the fair value hierarchy the Organization’s financial assets and liabilities accounted for at fair value on a recurring basis as of June 30, 2019 and 2018. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Organization’s assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Organization’s assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

	As of June 30, 2019			
	Level 1	**Level 2**	**Level 3**	**Fair Value**
Endowment fund	**$ -**	**$ -**	**$ 51,377**	**$ 51,377**

	As of June 30, 2018			
	Level 1	**Level 2**	**Level 3**	**Fair Value**
Endowment fund	$ -	$ -	$ 52,148	$ 52,148

The table below sets forth a summary of changes in the fair value of the Organization's Level 3 assets that use significant unobservable inputs (Level 3 measurements) for the years ended June 30, 2019 and 2018:

	Endowment Fund	
	2019	**2018**
Balance, beginning of year	**$ 52,148**	$ 50,743
Realized gains	**2,027**	4,343
Expenditures	**(2,798)**	(2,938)
Balance, end of year	**$ 51,377**	$ 52,148

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

14. New Market Tax Credits and Associated Joint Venture

On July 19, 2017, the Organization closed on a New Market Tax Credit ("NMTC") transaction involving U.S. Bancorp Community Development Corporation (USBCDC), its related entities and agents. The NMTC program was established as part of the Community Renewal Tax Relief Act of 2000. The goal of the NMTC program is to spur revitalization efforts of low-income and impoverished communities across the United States and its Territories by providing tax credit incentives to investors in a certified community development entity. The tax credit for investors equals 39% of the investment, which is credited over a seven-year period. A community development entity is required to participate and has a primary mission of providing financing for revitalization projects in low-income communities.

NMTC financing allows organizations such as affiliates of Habitat for Humanity International to receive low-interest loans or investment capital from community development entities, primarily financial institutions, which allow their investors to receive tax credits to be applied against their federal tax liability.

The following is a summary of the NMTC transaction entered into during the year ended June 30, 2018:

HFHI NMTC Leverage Lender 2016-1, LLC

In July 2017 the Organization acquired a 24.40% membership interest in HFHI NMTC Leverage Lender, LLC (the "LLC") in exchange for a cash investment of $2,999,654. The LLC was formed to provide financing for the borrower's equity investment in a community development entity - HFHI NMTC Sub-CDE II, LLC ("CDE"), and is solely managed by a third party. Accordingly, the LLC entered into a Loan Agreement to lend $12,292,681 to Twain Investment Fund 250, LLC. ("Borrower"). The Borrower used the loan proceeds as its equity investment in the CDE which, in turn, used the proceeds of the Borrower's equity investment to fund the loans to the members of the LLC, including Habitat for Humanity of Charlotte, Inc. Effective November 2, 2017, the operating agreement of the LLC was amended to admit additional members, reducing Habitat for Humanity of Charlotte, Inc.'s membership interest to 13.88%.

The LLC's loan receivable bears interest at a rate of 1% per annum. The loan receivable matures on July 19, 2040 and requires semi-annual accrued interest payments until November 10, 2024 and semi-annual principal and interest payments commencing on November 10, 2024 sufficient to fully amortize the loan. Simultaneous with these transactions, the LLC entered into an Option Agreement with USBCDC to put the ownership interest in the Borrower for $1,000 commencing 15 calendar days after the end of the seven-year credit period applicable to each qualified equity investment made by the Borrower in the CDE, beginning on the first credit allowance date and ending on the last day prior to the seventh anniversary of the last credit allowance date and continuing for six months, or call the ownership interest for a 12-month period following the expiration of the Put Option at fair market value.

Loan payable - HFHI NMTC Sub-CDE II, LLC

As a component of the NMTC transaction, the Organization received a loan of $4,435,278 from the CDE and entered into a Loan and Security Agreement ("Agreement") dated July 19, 2017. The Organization is obligated under the Agreement and related Promissory Note to pay interest on the borrowings at a rate of 0.68% per annum with a maturity date of July 19, 2047. Commencing on November 5, 2017 and semi-annually until May 5, 2024, the Organization is required to make payments of accrued interest. Commencing on November 5, 2024 and semi-annually thereafter, the Organization is required to make equal principal and interest payments in an amount to fully amortize the loan by its maturity date. Pursuant to the Agreement, the Organization is required to comply with the NMTC requirements as generally set forth in the Internal Revenue Code ("IRC") Section 45D, including that the Organization maintain a Separate Business such that the Separate Business will qualify as a qualified active low-income community business as defined in IRC Section 45D. Only the Separate Business assets of the Organization were pledged as security under the Agreement to the CDE.

In accordance with the Agreement, the Organization is required to maintain a separate Affiliate Expense Reserve, which is used to pay compliance and servicing fees to Habitat for Humanity International in semi-annual installments. The initial required funding under the Agreement as it relates to the Organization was $221,663. As of June 30, 2019 and 2018, the balance of the Affiliate Expense Reserve was $156,617 and $186,220, respectively, and is included in restricted cash for joint venture reserves on the consolidated statements of financial position.

Upon exercise of the put/call option, the promissory notes will become the property of the LLC. The exercise will effectively allow the Organization to extinguish the outstanding debt and realize its joint venture investment and note receivable without further cash flow activity.

15. Living Legacy Fund

The Living Legacy Fund is a permanently restricted fund that finances mortgages for Habitat homeowners and invests mortgage payments back into the future mortgage financing. Unlike an endowment fund, the Organization invests the principal immediately in mortgages for new housing. Contributions to the Living Legacy Fund of $182,450 were made during the year ended June 30, 2019. The balance of this fund includes $69,615 of cash on hand and $1,515,190 of mortgages receivable as of June 30, 2019. Contributions to the Living Legacy Fund of $203,050 were made during the year ended June 30, 2018. The balance of this fund includes $47,413 of cash on hand and $1,354,942 of mortgages receivable as of June 30, 2018.

16. Retirement Plan

The Organization maintains a retirement savings plan (the “Plan”) under the terms of Section 403(b) of the Internal Revenue Code. All salaried employees over the age of 18 are eligible to participate upon hire date. In accordance with the Plan document, the Organization, at the discretion of management, may provide matching contributions equal to 100% of the employee’s pre-tax contributions, up to 3% of eligible compensation. During the years ended June 30, 2019 and 2018, the Organization contributed approximately $127,000 and $104,000 respectively.

17. Related-Party Transactions

The Organization pays quarterly tithes and management service fees to Habitat for Humanity International (“HFHI”), an affiliate of the Organization. The Organization paid approximately $393,000 and $428,000 to HFHI to support HFHI’s international work for the years ended June 30, 2019 and 2018, respectively. In addition, the Organization paid approximately $181,100 and $190,700 to HFHI for AmeriCorps volunteers serving at the Organization for the years ended June 30, 2019 and June 30, 2018, respectively.

As of June 30, 2019, and June 30, 2018, the Organization had a payable balance due to HFHI of approximately $61,000 and $256,000, respectively.

Other Financial Information

DHG
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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors of
Habitat for Humanity of Charlotte, Inc. and Subsidiaries

We have audited, in accordance with the auditing standards generally accepted in the United States Of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Habitat for Humanity of Charlotte, Inc. and Subsidiaries (a North Carolina not-for-profit organization) (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, changes in net assets and cash flows for the years then ended, and the consolidated statement of functional expenses for the year ended June 30, 2019, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 16, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

DIXON HUGHES GOODMAN LLP

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Tampa, Florida
October 16, 2019

DIXON HUGHES GOODMAN LLP

Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the OMB Uniform Guidance

Board of Directors of
Habitat for Humanity of Charlotte, Inc. and Subsidiaries

Report on Compliance for Each Major Federal Program

We have audited Habitat for Humanity of Charlotte, Inc. and Subsidiaries' (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2019. The Organization's major federal program is identified in the summary of audit results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

DIXON HUGHES GOODMAN LLP

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Tampa, Florida
October 16, 2019

Schedule of Findings and Questioned Costs

1. Summary of Audit Results

1. The independent auditors' report expresses an unmodified opinion on the fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America.

2. No significant deficiencies or material weaknesses in internal control over financial reporting were disclosed by the audit.

3. No instance of noncompliance material to the consolidated financial statements were disclosed by the audit.

4. No significant deficiencies or material weaknesses in internal control over compliance were disclosed by the audit.

5. The independent auditors' report on compliance for each major federal program expresses an unmodified opinion.

6. No findings required to be reported in accordance with 2 CFR 200.516(a) were disclosed by the audit.

7. The program tested as a major program was the U.S. Department of Housing and Urban Development Entitlement Grants Cluster: Community Development Block Grants (CFDA 14.218).

8. The threshold for distinguishing between Type A and Type B programs was $750,000.

9. The auditee qualified as a low-risk auditee.

2. Financial Statement Findings

There were no findings related to the financial statements required to be reported in accordance with *Government Auditing Standards* for the year ended June 30, 2019.

3. Federal Award Findings and Questioned Costs

There were no findings related to federal awards required to be reported in accordance with 2 CFR 200.516(a) for the year ended June 30, 2019.

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Grant Number	Federal CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
Pass-through programs from:			
Habitat for Humanity International, Inc.:			
Self-Help Homeownership Opportunity Program	SH16-020	14.247	$ 270,000
Total Self-Help Homeownership Opportunity Program			270,000
Pass-through programs from:			
City of Charlotte, North Carolina:			
Entitlement Grants Cluster:			
Community Development Block Grants (Wait list 2)	2018001154	14.218	100,379
Community Development Block Grants (Wait list 3)	2019000263	14.218	369,823
Community Development Block Grants (2017)	2017000650	14.218	22,822
Community Development Block Grants (2018)	2018000517	14.218	58,628
Community Development Block Grants (2019)	2019000547	14.218	293,686
Total Entitlement Grants Cluster			845,338
Total expenditures			$ 1,115,338

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Habitat for Humanity of Charlotte, Inc. and Subsidiaries under the programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Habitat for Humanity of Charlotte, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Habitat for Humanity of Charlotte, Inc. Habitat for Humanity of Charlotte, Inc. has not elected to use the 10% de minimus cost rate.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenses are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenses are not allowable or are limited as to reimbursement.

3. Program Income

In accordance with terms of the grants, program income totaling $81,450 was used to reduce the amount of federal funds used in completing the projects.

OUR TOWNS OF
NORTH MECKLENBURG-IREDELL
HABITAT FOR HUMANITY, INC.

FINANCIAL STATEMENTS
JUNE 30, 2019

Our Towns of North Mecklenburg - Iredell Habitat for Humanity, Inc.
Table of Contents
June 30, 2019

C. DEWITT FOARD & COMPANY, P.A.

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PHILLIP G. WILSON
TERRY W. LANCASTER

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Our Towns of North Mecklenburg-Iredell Habitat for Humanity
Cornelius, North Carolina

We have audited the accompanying financial statements of Our Towns of North Mecklenburg-Iredell Habitat for Humanity ("Our Towns HFH" - a nonprofit corporation), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Our Towns of North Mecklenburg-Iredell Habitat for Humanity, as of June 30, 2019 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information
We have previously audited Our Towns HFH's 2018 financial statements, and our report dated October 17, 2018, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

C. DeWitt Foard & Company, P.A.

November 8, 2019

MEMBER: AMERICAN INSTITUTE OF CPAS & NORTH CAROLINA ASSOCIATION OF CPAS

Our Towns of North Mecklenburg - Iredell Habitat for Humanity, Inc.

Statement of Financial Position

June 30, 2019, with prior year comparative totals

	June 30, 2019	June 30, 2018
ASSETS		
Current Assets:		
Cash	$ 600,729	$ 705,483
Receivables:		
Grants and other receivables	129,695	109,859
Mortgages	688,629	689,039
Sales tax	24,240	26,598
Inventories:		
Land held for development	585,765	1,103,613
Construction in process and materials	564,862	677,287
Homes held for resale	-	25,022
Resale stores	209,415	216,098
Prepaids	72,211	113,160
Total Current Assets	2,875,546	3,666,159
Other Assets:		
Property and equipment (net of depreciation)	1,159,267	1,204,315
Grants and other receivables (net of current portion)	33,750	-
Mortgages receivable (net of current portion and present value discount)	4,372,448	4,020,690
Deposit	11,523	12,023
Investments	130,766	125,328
TOTAL ASSETS	***$ 8,583,300***	***$ 9,028,515***
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$ 311,764	$ 336,480
Payroll liabilities	36,777	65,929
Other payables	16,159	18,070
Escrows	30,629	36,703
Notes payable	363,982	226,525
Total Current Liabilities	759,311	683,707
Non-Current Liabilites:		
Notes payable, less current portion and unamortized loan fees	2,677,544	2,685,640
Net Assets:		
Without donor restrictions	4,840,298	5,237,761
With donor restrictions	306,147	421,407
Total Net Assets	5,146,445	5,659,168
TOTAL LIABILITIES AND NET ASSETS	***$ 8,583,300***	***$ 9,028,515***

Our Towns of North Mecklenburg - Iredell Habitat for Humanity, Inc.
Statement of Activities
Year Ended June 30, 2019, with prior year comparative totals

	Without Donor Restrictions	With Donor Restrictions	TOTALS	2018 TOTALS
SUPPORT AND REVENUE				
Contributions and grants	$ 814,718	$ 789,593	$ 1,604,311	$ 1,947,779
Sales of homes	2,219,550	-	2,219,550	1,330,606
The Restores	2,714,310	-	2,714,310	2,462,318
United Way	3,312	101,250	104,562	79,710
Loan discount amortization	467,845	-	467,845	531,993
Investment income	3,034	(89)	2,945	10,842
Gain (loss) on asset disposals	116,354	-	116,354	(33,905)
Other income	113,728	-	113,728	88,802
Net assets released			-	
from restrictions	1,006,014	(1,006,014)	-	-
TOTAL	***7,458,865***	***(115,260)***	***7,343,605***	***6,418,145***
EXPENSES				
Program Services:				
Housing	4,922,961	-	4,922,961	3,297,176
The Restores	2,195,311	-	2,195,311	1,972,822
Management and general	246,505	-	246,505	267,040
Fundraising	491,551	-	491,551	388,367
TOTAL	***7,856,328***	***-***	***7,856,328***	***5,925,405***
CHANGE IN NET ASSETS	***(397,463)***	***(115,260)***	***(512,723)***	***492,740***
NET ASSETS, BEGINNING	***5,237,761***	***421,407***	***5,659,168***	***5,166,428***
NET ASSETS, ENDING	***$ 4,840,298***	***$ 306,147***	***$ 5,146,445***	***$ 5,659,168***

Statement of Functional Expenses

Year Ended June 30, 2019, with prior year comparative totals

	Housing	The Restores	Management and General	Fundraising	TOTALS	2018 TOTALS
PERSONNEL						
Wages	$ 587,482	$ 1,010,193	$ 125,766	$ 296,669	$ 2,020,110	$ 1,864,804
Payroll taxes	46,599	81,749	9,200	23,094	160,642	151,839
Benefits	136,692	176,608	15,531	39,940	368,771	346,553
Total	***770,773***	***1,268,550***	***150,497***	***359,703***	***2,549,523***	***2,363,196***
OTHER EXPENSES						
Cost of homes	2,885,572	-	-	-	2,885,572	1,487,247
Mortgage discount	872,875	-	-	-	872,875	731,475
Services	90,396	139,041	16,362	32,350	278,149	283,160
Tithe	97,747	-	-	-	97,747	74,431
Utilities	5,352	94,957	5,451	1,808	107,568	80,153
Depreciation	17,400	48,447	8,643	5,100	79,590	68,457
Insurance	16,460	30,962	6,003	943	54,368	55,498
Maintenance	16,109	21,771	2,314	610	40,804	91,486
Auto	26,656	51,088	2,273	4,044	84,061	63,245
Supplies	27,852	25,265	10,884	37,044	101,045	72,707
Taxes and licenses	14,446	30,128	113	200	44,887	35,543
Telephone	14,861	22,459	2,481	4,994	44,795	44,525
Interest expense	6,027	22,892	5,640	1,178	35,737	35,271
Printing and postage	6,192	11,025	4,312	8,605	30,134	28,801
Travel and food	1,250	860	8,771	16,676	27,557	17,497
Advertising	744	16,860	15	1,887	19,506	18,619
Dues	22,957	-	1,476	1,441	25,874	23,316
Training	2,074	-	3,602	2,199	7,875	17,849
Volunteer	7,625	1,019	343	2,885	11,872	5,074
Rents	19,593	285,847	17,325	9,884	332,649	232,588
Donations	-	-	-	-	-	-
Cost of goods sold	-	124,140	-	-	124,140	95,267
Total	***4,152,188***	***926,761***	***96,008***	***131,848***	***5,306,805***	***3,562,209***
TOTAL	***$ 4,922,961***	***$ 2,195,311***	***$ 246,505***	***$ 491,551***	***$ 7,856,328***	***$ 5,925,405***

Our Towns of North Mecklenburg - Iredell Habitat for Humanity, Inc.

Statement of Cash Flows

Year Ended June 30, 2019, with prior year comparative totals

	Year Ended June 30,	
	2019	2018
OPERATING ACTIVITIES		
Change in net assets	$ (512,723)	$ 492,740
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Loss (gain) on sale of assets	(225)	370
Donation of land	-	(455,000)
Depreciation and amortization	81,039	69,816
Amortization of loan discount	(442,554)	(448,720)
Unrealized losses (gains) on investments	(1,753)	(9,616)
Decrease (Increase) in operating assets:		
Receivables	(50,818)	814
Inventories	661,978	(205,087)
Prepaid and other	40,949	(40,440)
Increase in operating liabilities:		
Payables	(55,779)	83,765
Escrows	(6,074)	15,851
Cash Flows from Operating Activities	***(285,960)***	***(495,507)***
INVESTING ACTIVITIES		
Mortgages made to homeowners (net of discounts)	(708,865)	(483,697)
Principal payments received from homeowners	800,071	812,647
Proceeds from sale of assets	225	700
Purchase of property and equipment	(34,542)	(191,102)
Proceeds from the sale of investments	-	14,109
Purchases of investments	(3,685)	-
Deposit made	-	(500)
Cash Flows from Investing Activities	***53,204***	***152,157***
FINANCING ACTIVITIES		
Proceeds from notes payable	625,750	448,272
Principal payments on notes payable	(466,889)	(302,037)
Loan fees paid	-	(4,500)
Amortization of non-interest bearing notes	(30,859)	(86,124)
Cash Flows from Financing Activities	***128,002***	***55,611***
CHANGE IN CASH	***(104,754)***	***(287,739)***
CASH, BEGINNING	***705,483***	***993,222***
CASH, ENDING	***$ 600,729***	***$ 705,483***

NOTE 1 – NATURE OF OPERATIONS

Organization
Our Towns of North Mecklenburg - Iredell Habitat for Humanity, Inc., (Our Towns HFH) is a North Carolina not-for-profit corporation that was established in 1995 and operates from a facility in Cornelius, North Carolina. Our Towns HFH is an affiliate of Habitat for Humanity International (HFH International) and an agency of United Way of Central Carolinas, Inc.

Purpose
The purpose of Our Towns HFH is to create decent, affordable housing and perform rehabilitation repairs for those in need. Our Towns HFH builds homes - whose size averages 1,100 square feet - that are sold to individuals at no profit, utilizing a non-interest bearing mortgage, ranging from 20-30 years. In exchange, the families are required to contribute 400 hours of "sweat equity" towards the construction of their home and other projects. During the year ended June 30, 2019, seventeen houses were sold.

Funding sources
Our Towns HFH is supported primarily through contributions, grants, and homeowner mortgage payments. In addition, Our Towns HFH operates two Restores, which sell donated furniture and goods.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting
The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

> *Net Assets Without Donor Restrictions* – Net assets without donor restrictions are those currently available for use in day-to-day operations of Our Towns HFH and those resources invested in property and equipment.
>
> *Net Assets With Donor Restrictions* - Net assets with donor restrictions consist of temporarily restricted net assets and permanently restricted net assets. Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization or the passage of time. When a restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Organization. The donors of these assets generally permit Our Towns HFH to use the income earned on any related investments for general or specific purposes.

Cash
Cash and cash equivalents consist of cash on hand, cash in banks, and money market funds.

Investments
Our Towns HFH carries its investments at fair value on the statement of financial position. Gains and losses on the change in the value of investments are recorded as increases or decreases in unrestricted net assets.

Receivables
Contributions receivable consist of unconditional promises to give. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are expected to be received. In addition, management has determined an allowance for doubtful accounts based on an evaluation of the receivables, historical experience, and current and anticipated economic conditions.

Inventories
Store inventories consist of donations to the resale store, which are recorded at an estimated value of one month's sales, and items purchased for resale, which are recorded at cost. Land and construction in process, which are expected to be sold to homeowners, are carried on the books at cost or the fair value when donated. Donated land is recorded at appraised value; however, if an appraisal was not available at the date of the contribution, it is recorded at the value used for assessing local property taxes.

Property and equipment
Property is recorded at cost if purchased or fair value if donated, subject to a $500 capitalization policy. Costs that improve or extend the useful lives of assets are capitalized. Amounts paid for maintenance and repairs are expensed as incurred. Depreciation expense is recorded using the straight-line method of depreciation over the estimated useful lives of the assets, which range from three years for computers, five to ten years for furniture and equipment, and 30 to 40 years for buildings. Website design costs are amortized over a three-year period.

Escrows
The $30,629 balance in escrows consists primarily of amounts received from homeowners which will be used to pay closing costs for new homeowners.

Donated services
Our Towns HFH pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist Our Towns HFH with program services, management and general support, and fundraising efforts. Our Towns HFH depends on volunteers to construct homes and the Restores utilize a large number of volunteers to perform cashier and other functions. No amounts have been reflected in the financial statements for these contributions, as these services generally do not meet the criteria for recording under U.S. generally accepted accounting principles.

Donated goods
Our Towns HFH receives a large amount of furniture and other goods which are sold in the Restores. Our Towns HFH does not record the value of these goods as a contribution upon receipt because of the uncertainty as to the amount of the proceeds that will be generated when the goods are sold. Goods which are not able to be sold or distributed are donated to other not-for-profit organizations for distribution to those in need. Management estimates that the net realizable value of the inventory at year-end approximated one month's sales.

Federal income tax status
Our Towns HFH is exempt from Federal income tax on its exempt function income under Internal Revenue Code Section 501(c)(3) under a group exemption letter granted to HFH International, which is classified as other than a private foundation as defined by Section 509(a) of the Internal Revenue Code.

Cash flows
Interest expense incurred and paid during the year ended June 30, 2019 amounted to $34,379.

Use of estimates
The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of support, revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional allocation of expenses
Expenses that are inherently program, management and general, or fundraising, are charged directly to those functions. Facility costs are allocated based on the estimated square footage utilized by that function. Payroll and all other expenses are allocated to program services, management and general, and fundraising based on management's estimates of time spent.

Prior-year comparative totals
The financial statements include certain prior-year summarized information, which is presented for comparative purposes only. Accordingly, such information should be read in conjunction with Our Town's HFH's 2018 financial statements, from which the summarized information was derived. Also certain prior-year amounts have been restated to conform to the current-year presentation.

NOTE 3 – RECEIVABLES

Grants and other receivables
Grants receivable represents $101,250 of United Way allocation for the year ending June 30, 2020 and grants, pledges and other receivables of $62,195. Management has determined that no allowance for doubtful accounts is necessary based on historical experience. These amounts are shown at net realizable value and are expected to be collected in the subsequent year, except for $33,750 of the United Way allocation, which is expected to be collected in the year ending June 30, 2021.

NOTE 4 – CONTRIBUTIONS AND OTHER RECEIVABLES

Sales tax receivable
Sales tax paid that will be refunded to Our Towns HFH is shown at net realizable value with no allowance for doubtful accounts and is expected to be collected in the subsequent year.

NOTE 5 – PROPERTY AND EQUIPMENT

Balance at June 30, 2019
Property and equipment which are used by Our Towns HFH in its operations consists of the following at June 30, 2019:

Land	$	73,151
Buildings and improvements		1,644,379
Equipment		226,119
Website		10,770
Vehicles		191,363
Total		2,145,782
Less – accumulated depreciation and amortization		986,515
PROPERTY AND EQUIPMENT, net	***$***	***1,159,267***

NOTE 6 – NOTES PAYABLE

Non-interest bearing notes payable are presented on the financial statements net of a present value discount utilizing a rate of four percent. Notes payable as of June 30, 2019, consists of the following obligations:

Interest bearing		
An unsecured line of credit of up to $400,000 due to Yadkin Bank. Payments of interest at the Bank's prime rate, but not less than 4.5%, are due monthly.	$	122,193
A note due to Peoples Bank payable in monthly installments of $6,620, applied first to interest at a fixed rate of 3.55 percent and then to principal. This note is secured by a deed of trust on the land and buildings used for Our Towns HFH's offices and resale store and the note matures December, 2020.		748,871
A note due to First National Bank payable in monthly installments of interest only at the Bank's prime rate, subject to a floor of 4.65%. This note is secured by a deed of trust on the related land and buildings. This note matures April, 2033.		56,120
Non-interest bearing		
Thirteen separate notes due to HFH/HUD that do not bear interest. Principal payments on these notes total $3,737 per month.		84,513

Various notes with original balances of $20,000 - $45,000 due to North Carolina Housing Finance Agency. These notes do not bear interest and will be repaid as the mortgage payments are collected from the related homeowners.	2,036,256
TOTAL	***$ 3,047,953***

Maturities of long term debt occur during the year ending June 30:

2019	$ 363,982
2020	875,893
2021	169,882
2022	164,721
2023	155,947
Thereafter	2,403,965
Total	4,134,390
Less – present value discount	1,086,437
Subtotal	3,047,953
Less – unamortized loan fees	6,427
NOTES PAYABLE, NET	***$ 3,041,526***

Loan fees
Loan fees of $11,296 have been incurred and are being amortized over the lives of the loans. During the year amortization expense of $1,359 was recorded and at year-end the unamortized loan fees were $6,427. In accordance with generally accepted accounting principles, this amount is shown as a reduction of notes payable.

NOTE 7 – MORTGAGES RECEIVABLE

Balances at June 30, 2019
Mortgages receivable from homeowners do not bear interest. Therefore, these mortgages are carried on the books net of a discount for the present value of future payments. The rate of interest used to determine this discount is established annually by HFH International and was 7.66 percent for the current fiscal year. Mortgage activity for the year ended June 30, 2019 was as follows:

	Mortgages	Discount
Mortgages receivable, beginning	$ 11,122,624	$ 6,412,895
Add – new mortgages	1,587,113	872,875
Subtotal	12,709,737	7,285,770
Deduct:		
Payments received and change in value of discount	800,071	437,179
Mortgages receivable, ending	***$ 11,909,668***	***$ 6,848,591***

Net mortgages receivable of $5,061,077 are classified as current of $688,629 and long-term of $4,372,448 in the accompanying statement of financial position.

Management reviews the outstanding balances regularly for collectability to determine if an allowance for doubtful accounts is needed and has frequent communication with the homeowners and is able to identify collection problems. Because the mortgages are collateralized by the related homes, which are worth more than the discounted mortgage, management feels no allowance for uncollectible accounts is required at June 30, 2019.

NOTE 8 – INVESTMENTS

Investments as of June 30, 2019 consisted of beneficial interests in accounts controlled by Foundation for the Carolinas (FFTC).

Fair value measurements

Generally accepted accounting principles require fair value of financial instruments to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. It establishes a three-level valuation hierarchy based upon observable and unobservable inputs, as follows:

Level 1 - Fair value is based on quoted prices in active markets for identical assets or liabilities.

Level 2 - Fair value is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Fair value is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The beneficial interest in FFTC assets are classified as Level 3 assets and are valued based on the market value of the underlying funds, which consist of some assets which are publicly-traded and other assets which are not publicly-traded. Changes to these assets during the year were as follows:

Balance, beginning of year	$	125,328
Purchases		3,685
Change in value		1,753
Balance, end of year	***$***	***130,766***

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Balance at June 30, 2019
Net assets with donor restrictions as of June 30, 2019 consist of the following:

Temporarily restricted:				
Time restrictions:				
United Way allocation	$	101,250		
Spendable portion of endowment funds		1,871	$	103,121
Unutilized funds:				
Specific project or home construction				192,862
Total Temporarily Restricted				295,983
Permanently restricted portion of endowment fund				10,164
TOTAL			***$***	***306,147***

Releases of temporarily restricted net assets
During the year, temporarily restricted net assets totaling $1,006,014 were released from restrictions by the expiration of time restrictions ($90,000) and utilizing the funds for their restricted purposes ($916,014).

Permanently restricted
The permanently restricted net assets represents the balance in an endowment fund with Foundation for the Carolinas. Our Towns HFH may request distributions of investment income from the fund. However, the Board of Directors of the Foundation for the Carolinas has complete discretion as to the timing and amounts of distributions from these funds but has no variance power to distribute any portion of these funds to another nonprofit organization. During the year ended June 30, 2019, Our Towns HFH received no distributions from this fund.

NOTE 10 – LEASE OBLIGATIONS

Lease payments made on office equipment and the rental of Restore locations during the year were $313,284. Future minimum lease payments under these non-cancelable operating leases are due during the year ending June 30:

2020	$	270,759
2021		122,125
2022		108,798
2023		30,798
2024		4,798
TOTAL	***$***	***537,278***

The lease for the Restore location contains an option to extend which may be exercised at Our Towns HFH’s discretion.

NOTE 11 – RELATED PARTY TRANSACTIONS

Our Towns HFH regularly remits a portion of its contributions to HFH International for construction of houses in Guatemala. During the year ended June 30, 2019, the amount remitted for Guatemala was $97,747. This amount is shown as a tithe in the accompanying statement of functional expenses.

NOTE 12 - RETIREMENT PLAN

Our Towns HFH maintains a retirement plan, as described in Internal Revenue Code Section 401(k), for the benefit of its employees. Eligible employees can make pretax contributions to the plan up to limits established by the Internal Revenue Service and Our Towns HFH makes discretionary contributions on behalf of its employees. Contributions from Our Towns HFH are fully vested after three years of service with the organization. For the current fiscal year Our Towns HFH contributed $30,936 to the plan, based on a discretionary match of employees' contributions.

NOTE 13 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Habitat has $1,443,293 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditure consisting of cash of $600,729 and pledges, grants and other receivables of $153,935, which are expected to be collected during the year, and $688,629 of mortgage payments due from homeowners within the next year. $192,862 of these assets are subject to donor restrictions that they be utilized for a specific purpose. Habitat has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due and maintains a line of credit of up to $400,000 in case of emergency needs, of which $277,192 was available at year-end. In addition, as part of its liquidity Habitat invests cash in excess of daily requirements in short-term investments, primarily money market funds.

NOTE 14 – CONCENTRATIONS OF RISK

Cash
Our Towns HFH occasionally maintains cash balances in excess of insured limits. At June 30, 2019, the uninsured balance was $409,500. However, management believes that the risk related to the accounts is minimal due to the credit worthiness of the financial institutions.

Geographic area
Our Towns HFH operates in a small geographic area, and is therefore sensitive to changes in the local economy.

NOTE 15 – CONTINGENT LIABILITY

Mortgages sold
During a previous year Our Towns HFH sold fifteen mortgages to a local financial institution (the Bank). Even though ownership of the mortgages transferred to the Bank, the agreement contains a provision that, in the event that any of the mortgages are delinquent by more than ninety days, Our Towns HFH must replace the delinquent mortgage with a comparable substitute mortgage acceptable to the Bank or repurchase the mortgage at its face value. As of the date of this report, none of the mortgages held by the Bank were delinquent.

NOTE 16 – SUBSEQUENT EVENTS

Our Towns HFH has evaluated subsequent events from the date of the statement of financial position through the date of the audit report, which is the date the financial statements were available to be issued. During this period no material recognizable subsequent events were identified.